

Message Text

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ACTION SS-25

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 0006

INFO AMEMBASSY ROME IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY BONN IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 01546 VIPTO 020

EXDIS

E.O. 11652: GDS

TAGS: OVIP (MONDALE, WALTER F.)

SUBJECT: EXPANDED MEETING BETWEEN VICE PRESIDENT MONDALE
AND PRIME MINISTER ANDREOTTI

1. ANDREOTTI BEGAN BY REPEATING THE WELCOME HE HAD PREVIOUSLY GIVEN PRIVATELY TO THE VICE PRESIDENT. ANDREOTTI RECALLED THE LONG FRIENDSHIP BETWEEN OUR TWO COUNTRIES; HE MENTIONED PREVIOUS VISITS BY VICE PRESIDENT LYNDON JOHNSON AND LAST YEAR BY VICE PRESIDENT ROCKEFELLER AFTER THE FRIULI EARTHQUAKE. ANDREOTTI RECALLED THAT THE ITALIANS, AND ESPECIALLY THE CHRISTIAN DEMOCRATS, HAD ALWAYS SUPPORTED NATO AND THE EUROPEAN COMMUNITY EVEN WHEN THESE CONCEPTS WERE NOT ENTIRELY ACCEPTED BY THE ITALIAN PUBLIC. ANDREOTTI CONCLUDED BY SAYING THAT ITALY ALWAYS COUNTS ON UNITED STATES FRIENDSHIP AND UNDERSTANDING.

2. THE VICE PRESIDENT EXPRESSED HIS APPRECIATION FOR THE WELCOME AND SAID THAT PRESIDENT CARTER HAD SENT HIM ON
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THIS TRIP TO MEET WITH OUR OLD ALLIES AND FRIENDS. IT IS PRESIDENT CARTER'S DESIRE THAT WE HAVE THE CLOSEST CONSULTATIONS ON ALL MATTERS OF MUTUAL INTEREST. THE VICE PRESIDENT EXPRESSED ADMIRATION FOR THE WAY IN WHICH ANDREOTTI AND HIS GOVERNMENT WERE ATTACKING THEIR SERIOUS PROBLEMS. HE SAID WE ARE MINDFUL OF ITALY'S INTEREST IN NATO AND THE EUROPEAN COMMUNITY AND WE

SUPPORT EFFORTS TOWARD EUROPEAN INTEGRATION AND THE WORK OF THE EUROPEAN COMMISSION. THE VICE PRESIDENT IS URGING THOSE COUNTRIES WITH STRONG ECONOMIES (GERMANY, JAPAN, HOLLAND) PRUDENTLY TO STIMULATE THEIR ECONOMIES TO INCREASE THE PACE OF WORLD ECONOMIC ACTIVITY WHICH WOULD HELP COUNTRIES LIKE ITALY STABILIZE AND GROW IN A HEALTHY ENVIRONMENT. HE ADDED THAT WE ALSO WISH TO MOVE IN THE GATT TRADE NEGOTIATIONS TO AVOID PROTECTIONISM AND TO IMPROVE THE INTERNATIONAL TRADING SYSTEM.

4. AFTER STAMMATI RECOUNTED THE REMARKS MADE ORIOR TO THE ARRIVAL OF THE VICE PRESIDENT AND PRIME MINISTER, ANDREOTTI NOTED THAT WHILE ECONOMIC PROBLEMS MUST BE PRESENTED IN OBJECTIVE TERMS, WE MUST NOT OVERLOOK THE POLITICAL ASPECTS. HE HAD ASKED ITALIAN LABOR AND MANAGEMENT TO WORK TOGETHER TO FIND A WAY TO REDUCE THE COST OF LABOR. THIS HAS RESULTED IN A MAJOR STEP FORWARD. LABOR HAS ACKNOWLEDGED THAT THERE ARE A NUMBER OF THINGS WHICH MUST BE CORRECTED. LABOR HAS UNDERTAKEN TO INCREASE PRODUCTIVITY BY REDUCING ABSENTEEISM AND TO INSURE BETTER MOBILITY OF LABOR TO ASSIST MANAGEMENT IN IMPROVING EFFICIENCY. IN ANDREOTTI'S VIEW, THE MOST IMPORTANT COMMITMENT BY LABOR HAS BEEN TO AGREE TO FOREGO FACTORY-LEVEL WAGE NEGOTIATIONS. HERETOFORE, ITALIAN UNIONS NEGOTIATED BROAD WAGE CONTRACTS ON A NATIONAL LEVEL AND THESE WERE THEN ADJUSTED AT THE LOCAL LEVEL. THIS HAS INCREASED COSTS AND HAS CREATED CONTINUAL AGITATION IN THE FACTORIES.

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5. ANDREOTTI WENT ON TO NOTE THAT THE UNIONS HAD AGREED TO THE REMOVAL OF SEVEN HOLIDAYS DURING THE YEAR. (THIS MAY BE MORE IMPORTANT THAN IT SEEMS BECAUSE ITALIANS HAVE A HABIT OF ADDING A DAY OR TWO BEFORE OR AFTER HOLIDAYS; THUS THE PRODUCTIVITY GAINED COULD BE CONSIDERABLE.) IT ALSO HAS BEEN AGREED TO ELIMINATE SPECIAL WAGE INDEXING AT A HIGH RATE IN SOME INDUSTRIES. ANDREOTTI CONCLUDED BY SAYING THAT ALL THESE IMPROVEMENTS ARE NOT ENOUGH AND THAT THE GOVERNMENT MUST SEEK A LAW TO GO FURTHER. HOWEVER, THIS LAW MUST BE ACCEPTABLE TO PARLIAMENT AND NOT BE SUBJECT TO EXCESSIVE ATTACKS BY THE UNIONS. IN OTHER WORDS, HE EXPECTS OPPOSITION BUT IS TRYING TO FIND THE RIGHT MIXTURE TO BE ABLE TO BRING THIS OFF WHILE MAINTAINING RELATIVE LABOR PEACE.

6. ANDREOTTI WENT ON TO SAY THAT THE GOVERNMENT MUST PROVIDE RELIEF TO MANAGEMENT FOR SOCIAL CHARGES NOT DIRECTLY CONNECTED TO EMPLOYEES. HE NOTED THAT ITALY HAS A POOR REPUTATION FOR TAX COLLECTION. THREE YEARS AGO,

HE SAID, THERE WERE ONLY 6,000 ITALIANS WHO ADMITTED TO

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ACTION SS-25

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 01546 VIPTO 020

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INCOMES OVER 10 MILLION LIRA. LAST YEAR' THERE WERE
450,000 ITALIANS ADMITTING TO THIS INCOME. IN OTHER
WORDS' THE ITALIANS ARE DOING BETTER AT TAX COLLECTION.
ANDREOTTI CONCLUDED BY NOTING THAT ITALY IS A SPECIAL
SITUATION WITH THE MOST POWERFUL COMMUNIST PARTY IN THE
WEST. CHANGES IN ITALY MUST BE DONE SLOWLY BECAUSE
SPEED, HE FEELS, COULD CAUSE A SERIOUS UOHEAVAL.

8. THE VICE PRESIDENT THANKED THE PRIME MINISTER FOR
THE RUNDOWN OF ITALIAN ACTIONS AND CONGRATULATED
ANDREOTTI FOR THE COURAGE OF HIS ACTIONS IN A POTENTIALLY
EXPLOSIVE SITUATION.

9. UNDER SECRETARY COOPER ASKED WHETHER THE ITALIANS
HAD ANY ESTIMATE OF THE IMPACT ON WAGE COSTS OF THE IM-
PROVEMENTS OUTLINED BY ANDREOTTI. THEY SAID IT WAS VERY
HARD TO DETERMINE THE VALUE OF THESE REDUCTIONS BUT
AGREED THAT THE REDUCTIONS WOULD BE ON THE ORDER OF
5 PERCENT. COOPER THEN ASKED WHETHER ITALY'S CONCERN
FOR THE HEALTH OF THE LIRA IS BASED ON GENERAL OR
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SPECIFIC CONSIDERATIONS. BAFFI (GOVERNOR OF THE BANK OF ITALY) POINTED TO THE REMOVAL OF THE IMPORT DEPOSIT AND THE FOREIGN EXCHANGE TAX BOTH OF WHICH WOULD OCCUR IN FEBRUARY/MARCH. THIS WOULD PUT PRESSURE ON THE LIRA. FOREIGN TRADE MINISTER OSSOLA SAID THAT ITALY HAD ABOUT THREE BILLION DOLLARS IN RESERVE BUT SHORT-TERM DEBT HAD GROWN CONSIDERABLY AND PROBABLY EXCEEDS THESE RESERVES.

10. ASSISTANT SECRETARY BERGSTEN REMARKED THAT GIVEN THE SITUATION, ITALY COULD EASILY HAVE A LESS FAVORABLE BALANCE OF PAYMENTS SITUATION IN 1977 THAN THE ONE BILLION DOLLAR SURPLUS WHICH THE ITALIANS HAD PROJECTED. BAFFI SAID THE SURPLUS WAS BASED ON ECONOMETRIC MODELS PLUS COMMON SENSE. THEY USED THE ASSUMPTION THAT THERE WOULD BE NO GNP GROWTH IN 1977 (REDUCED IMPORTS) AND THAT WORLD TRADE WOULD INCREASE BY 8 PERCENT WITH ITALY KEEPING ITS SHARE OF WORLD TRADE. HE NOTED THAT THE LIRA HAD DEPRECIATED BY 17 PERCENT LAST YEAR WHICH WAS MORE THAN THE RELATIVE INCREASE OF INFLATION IN ITALY COMPARED WITH OTHER COUNTRIES.

12. IN CONCLUSION, THE VICE PRESIDENT EXPRESSED PRESIDENT CARTER'S STRONG CONCERNS ABOUT NUCLEAR PROLIFERATION AND HIS HOPES THAT WE CAN COOPERATE IN THE COMING YEARS TO END THE WIDE DISSEMINATION OF NUCLEAR MATERIALS AND TECHNOLOGY WHICH MAKES CONTROLLING NUCLEAR WEAPONS ALMOST IMPOSSIBLE. PRESIDENT CARTER ALSO HOPES THAT WE CAN REDUCE THE SALE OF CONVENTIONAL ARMS. THE VICE PRESIDENT NOTED THAT AS THE LEADING SUPPLIER THE UNITED STATES FULLY UNDERSTANDS ITS RESPONSIBILITY FOR TAKING A LEAD IN THIS REFORM.

13. ANDREOTTI INDICATED THAT ITALY WOULD REACT POSITIVELY TO SUCH PROPOSALS. HE CONCLUDED BY URGING THAT THE PRESIDENT OF THE UNITED STATES EXERT HIS MORAL AUTHORITY TO TRY TO ACHIEVE A BREAK-THROUGH ON THE
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ENERGY PROBLEM. IN ADDITION TO THE MATERIAL BENEFITS OF SUCH A PROGRAM, ANDREOTTI BELIEVES THAT SUCH A MOVE WOULD INSPIRE YOUNG PEOPLE WHO AT THE MOMENT ARE SKEPTICAL ABOUT GOVERNMENT PROGRAMS. THE VICE PRESIDENT REACTED POSITIVELY SAYING THAT HE WILL CONVEY THIS VIEW TO PRESIDENT CARTER, WHO FEELS VERY STRONGLY ABOUT THE NEED FOR A STRONG U.S. ENERGY PROGRAM; THE PRESIDENT WILL BE PUTTING FORWARD A MAJOR ENERGY PROGRAM IN APRIL

OR MAY WIT/HMR. SCHLESINGER IN CHARGE; HE ADDED THAT
PERHAPS THIS SUBJECT SHOULD BE PURSUED AT THE SUMMIT
LATER THIS YEAR.

ARMSTRONG

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